# Performance Audit
# Review of the Submitted Budget
# For Fiscal Year 2005

March 2004

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**City Auditor's Office**

**City of Kansas City, Missouri**

13-2004

March 2, 2004

Honorable Mayor and Members of the City Council:

The city continues to struggle with a long-term structural budget imbalance. The submitted budget relies on one-time revenues, doesn't maintain an adequate fund balance, defers capital maintenance, and anticipates expenditures to grow faster than revenues. While the City Manager's submitted budget acknowledges the structural imbalance and proposes a major structural change in how the health levy is used, the city continues to "tread water" in efforts to address the financial weaknesses.

In trying to work forward and address the structural problems, keep in mind that the city can't expect to grow out of the imbalance. Economic growth alone won't fix the problems. The national economy hasn't been in a recession since November 2001. Yet, the federal and state governments continue to struggle. The recent economic downturn affects the city's financial weaknesses, but didn't cause it.

What causes the city's financial weaknesses? In this year's budget review, we've looked at some of the causes. We hosted a forum in June 2002 to discuss the city's financial condition. At that forum, participants with expertise in economics and finance from private, government, non-profit and academic organizations, identified some of the causes of the city's financial weaknesses:

- fragmented governance limits the city's control over spending;
- city lacks adequate financial policies;
- Council needs understandable and timely financial information; and
- service problems weaken the city's financial condition.

In this report, we describe the causes in more detail and illustrate them through specific examples.

As you read this report, keep in mind some issues that will affect the city in the coming years. The state and federal governments both face serious structural budgetary problems. In just a few years, the baby boom generation will begin to reach retirement age. This profound demographic change will affect the city, and though it is too soon to know how, it is not too soon to begin to try to understand the changes.

The audit team for this project was Michael Eglinski, Sharon Kingsbury, Amanda Noble, Joyce Patton, Sue Polys, Joan Pu, and Julia Terenjuk.

Mark Funkhouser
City Auditor

# Review of the Submitted Budget for Fiscal Year 2005

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## List of Exhibits

# Introduction

## Objectives, Scope and Method

This performance audit, a review of the City Manager's submitted budget, provides the City Council with information about the city's financial condition and the coming year's budget. We review the submitted budget each year as required by a City Council resolution. This is our $14^{th}$ budget review.

Over the years, we've highlighted progress the city made in addressing problems and weaknesses in the city's financial condition. We've focused a lot of our work on describing and measuring the city's long-term structural imbalance. The city has been treading water by annually approving a budget without addressing serious structural problems. Specifically, we've seen expected expenditures grow faster than revenues, fund balance depleted below a prudent level, and failure to adequately maintain streets and other infrastructure.

This year is no exception. The submitted budget for 2005 is not structurally balanced. Fund balance, at 2.4 percent of the general fund, is far below the 8 percent target. The city hasn't adequately funded capital maintenance. Future expenditure growth is forecast to exceed revenue growth.

This year, we looked at the causes of the city's financial problems. We hosted a financial condition forum in June 2002, where participants with expertise in economics and finance identified several causes of the city's financial problems. In this report, we illustrate each of the major causes the forum participants identified with examples, usually based on prior audit work.

We followed generally accepted government auditing standards in conducting this performance audit. We don't include a written response from management because we don't make any recommendations. Before we completed the report, we shared a draft with the Budget Officer.

# Findings and Recommendations

## Summary

A group of experts in finance and economics from private, government, non-profit and academic organizations helped us identify causes for the city's financial weaknesses. The financial condition forum participants met in June 2002 and identified four problems that we've described and illustrated with examples in our review of the City Manager's submitted budget: fragmented governance limits the city's control over spending; the city lacks adequate financial policies; the Council needs understandable and timely financial information; and service problems weaken the city's financial condition.

Fragmented governance limits the city's control over spending. Boards and commissions in Kansas City provide important services and are responsible for spending a lot of money. Decisions by boards and commissions can have tremendous effects on the city's budget and the city's financial condition. For example:

- The City Manager proposes cutting funds to other agencies and raising the health levy to fund the ambulance system governed by the MAST Board.

- If the city and Police Department fail to resolve issues related to security and organizational concerns, the city will continue to bear the relatively high costs of duplicate computer systems.

- At the request of the Parks Board, voters will consider authorizing bonds to expand the Liberty Memorial museum, paying for the bonds by reallocating existing resources. The city has not identified a way to pay for operating an expanded museum.

Kansas City lacks basic financial policies to guide decision making and ensure financial discipline. Financial policies, such as those recommended by the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting, haven't been adopted in the city. For example:

- The city lacks policies on debt level and capacity, one-time revenues, budgeting and contingency planning.

- Efforts to develop a policy to guide the use of Tax Increment Finance failed despite recommendations from our office and the City Manager.

The City Council needs understandable and timely financial information to understand the policy and practical implications of decisions. Much of the information staff provides is difficult to understand and hasn't been used to make financial and budget decisions. For example:

- The five-year forecast and financial condition analysis – reports that were once included as part of the normal budgeting process – weren't prepared and presented to the City Council this year.

- The city's latest annual financial report, typically available six months after the end of the fiscal year, is yet to be released ten months after the end of the fiscal year.

Problems with city services weaken the city's financial condition. Poor services can weaken the tax base, hurting the financial condition and leading to service reductions. Residents might leave the city. Potential new residents might choose to live elsewhere. Kansas City's population grew much slower than the area's population or the nation's population. Citizens are dissatisfied with many services. For example:

- Recent citizen surveys show residents continue to rate nearly all city services below the average of other communities surveyed in the metropolitan area or in the region.

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## Fragmented Governance Limits the City's Control Over Spending

Participants at the financial condition forum noted that leadership in Kansas City is decentralized. The city lacks control over large governmental units such as the police, parks, and other agencies governed by boards and commissions. Yet these boards, commissions, and agencies make decisions that significantly affect the city's financial condition. Participants at the financial condition forum felt the city needs mechanisms for coordinating spending between the city, police, and parks. The current structure complicates the city's ability to make strategic financial decisions.

**Boards and commissions spend a lot.** In 2002, the city's component units and the Parks and Recreation Department spent about $302 million.

The police made up almost half of the spending. Parks, TIF, and MAST are the other largest spending boards and commissions. (See Exhibit 1.)

Exhibit 1. 2002 Expenditures of Selected Boards

| Organization | Expenditures |
|---|---|
| Kansas City Board of Police Commissioners | $128,858,000 |
| Board of Parks and Recreation Commissioners | 56,860,000[1] |
| Tax Increment Financing Commission | 48,880,000 |
| Metropolitan Ambulance Services Trust | 40,699,000 |
| Land Clearance for Redevelopment Authority | 12,947,000 |
| Port Authority of Kansas City, Missouri | 9,729,000 |
| Economic Development Corporation | 3,412,000 |
| Kansas City Downtown Minority Development Corp. | 266,000 |
| Kansas City Maintenance Reserve Corporation | 55,000 |
| Kansas City Corporation for Industrial Development Charitable Fund | 44,000 |
| Total | $301,750,000 |

Sources: Kansas City, Missouri CAFR and MAST financial statements for the year ending 4/30/02.

**Boards have broad powers.** Like elected officials, boards are responsible for allocating public resources and overseeing service provision.

- Police. The Kansas City Police Department is not a city department, but is a state agency under exclusive control of the Board of Police Commissioners. The Governor appoints four board members to serve four-year terms. The Mayor is an ex officio member. State law grants the Board the duty to determine the policy for operating a police force in Kansas City and broad authority to do so. The city must provide at least 20 percent of its general revenues to fund police operations.

- Parks. Under city charter, the Parks and Recreation Department is under control of a five-member Board of Parks and Recreation Commissioners. The Mayor appoints members who serve during the term for which the Mayor was elected. The Board is responsible for controlling and managing parks, boulevards, parkways and public areas; and operating playgrounds and recreational facilities. Parks is funded through dedicated city tax revenues[2], fees, and transfers from the city's general fund.

[1] Includes expenditures related to an ice storm in 2002.
[2] Taxes dedicated to parks are: a property tax of $0.50 per $100 assessed value of land excluding improvements for park maintenance; a license fee of $12.50 per personal and commercial motor vehicle for parks and community centers; and a levy of $1.00 per foot of property abutting boulevards, parkways, roads and highways under the control and management of the Board of Parks and Recreation Commissioners for boulevard maintenance, repair and improvement.

- TIF. The City Council created the Tax Increment Financing (TIF) Commission by ordinance in 1982 as allowed by state statute. The Mayor appoints six commissioners with the City Council's approval. Other taxing jurisdictions appoint members when economic development projects under consideration affect their jurisdictions (school districts may appoint two representatives, counties may appoint two representatives, and other types of taxing authorities may appoint one representative). The TIF Commission is responsible for reviewing proposed economic development plans and projects and making recommendations regarding approval to the City Council. The commission enters into agreements with developers to implement approved plans, monitors their progress, and reimburses developers with TIF revenues. The TIF Commission is funded through TIF revenues – a portion of the growth in tax revenues estimated to be attributable to the economic development activities.

- MAST. The City Council created the Metropolitan Ambulance Services Trust (MAST) by ordinance in 1979. The Mayor appoints seven members to the Board including two Council members, with the City Council's approval. The city's Finance Director and Health Director serve as ex officio, non-voting members. The Board is responsible for overseeing the ambulance service and for charging and collecting fees. City code requires MAST to contract for all labor and management services to operate its control center and ambulances. MAST may act as operations contractor in an emergency or the absence of qualified bids or proposals at reasonable cost. MAST took over operations of the ambulance system July 1, 2003, after it failed to receive qualified bids at a reasonable cost. MAST is funded through patient billings and an operating subsidy from the city.

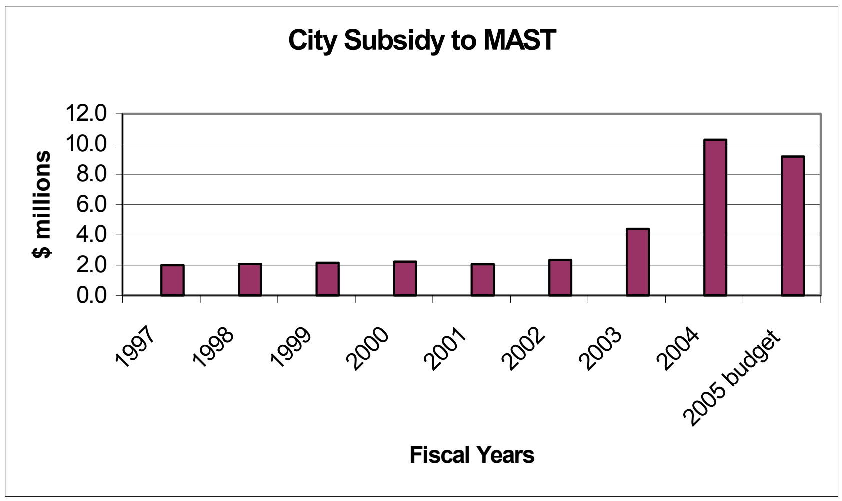
**Boards' spending decisions impact the city's budget.** MAST's financial crisis strained this year's budget and continues to affect the City Manager's submitted budget. Decisions that the Police and Parks departments are considering will affect future budgets.

### MAST Financial Problems Hit the City Budget

MAST is not financially viable and its financial position continues to weaken. MAST's expenses have grown faster than its revenues. MAST has depleted its fund balance and a line of credit guaranteed by the city. MAST has relied on the city to make up the difference.

**Current year subsidy was $5 million higher than expected.** MAST's financial difficulties are compounding the city's budget problems. We reported in our July 2003 performance audit that MAST was not financially viable without additional funding. MAST ceased negotiating with their contractor in March 2003 and the Board voted to take over direct operations of the ambulance system July 1, 2003. The MAST Board approved a transition budget of about $39 million with $5.1 million funding from the city. MAST subsequently requested more money. Management testified that without additional funding, MAST would not be able to make payroll. The City Council appropriated additional funds, bringing total city funding (excluding the KCI contract) to $10.3 million in fiscal year 2004. The additional funding was paid from the unreserved general fund balance and the health levy reserves.

Exhibit 2. City Subsidy to MAST ($ millions)




Sources: CAO Budget Review FY 2004 and Ordinance No. 040026.

**The City Manager proposes cutting funds to other agencies and raising the health levy to continue funding MAST.** MAST requested $11.3 million operating support from the city for fiscal year 2005. The City Manager's budget does not fully fund MAST at the requested level. The budget proposes an $8.5 million operating subsidy for MAST, funded from the health levy, general fund, and the public safety sales tax, and funds $670,613 in MAST facility debt. In order to continue funding MAST at the increased level, the City Manager is reducing budgeted funds for other agencies that provide indigent care and recommends that the City Council consider an increase in the current health levy property tax. The City Manager estimates that MAST will need an additional $2 million in city funding in fiscal year 2006 due to phased in reductions in Medicare reimbursement rates and wage increases agreed to in MAST's labor contract.

## Duplicating Police Department and City Computer Systems Would Cost Taxpayers

The city and Police Department have been cooperating in implementing a new computer system. However, the Police Department has raised security and organizational concerns, which are threatening the joint effort. If the city and Police Department cannot resolve the issue, taxpayers will continue to bear the costs of duplicate systems.

**ERP began as a cooperative effort.** The city and Police Department have been cooperating in implementing an enterprise resource planning (ERP) software system to meet the needs of both organizations. The project – now dubbed KC CREW – is replacing old, stand-alone budgeting, financial management, payroll, and human resources systems with an integrated system intended to bring information about dollars, hours, projects, and employees into one database. KC CREW is intended to help streamline processes and make information easier to share among departments. The integrated software requires less customization than the existing systems, making it easier to upgrade and maintain in the future.

**Security and organizational concerns threaten joint effort.** The city's RFP for ERP software and integration services required the consultant to present alternatives for keeping police and city data separate in order to protect the Police Department's sensitive information and respect the department's legal status. The city's consultant, MAXIMUS, proposed setting up the Police Department as a separate business unit within the software, but sharing all infrastructure and software, at an estimated cost of $15,000. However, the Police Department has concerns about allowing city database administrators access to sensitive personnel data. City and Police Department staff now disagree about the intent of the wording of the RFP. Both entities perceive that the other has taken an extreme and intractable position.

**Prior audit concluded consolidating computer systems was feasible.** Our January 2001 Performance Audit: *Consolidating City and Police Department Support Services*, reviewed advantages and disadvantages of consolidating administrative and support services between the Police Department and the city, identified potential barriers and considered how barriers could be reduced. We concluded that consolidating network and PC support was feasible and would provide cost savings, including avoiding costly duplication of information technology infrastructure. We concluded that the Police Department's concerns about data security could be addressed by restricting access, requiring background checks on IT personnel authorized to work with the Police Department's data, and reviewing for adherence to network security procedures. Concerns about the quality of service and responsiveness could be addressed through a performance contract.

**Integrating systems costs much less.** MAXIMUS has estimated that it would cost an additional $6 to $8 million to implement a physically separate ERP system for the Police Department. The Chief has stated that their existing systems don't need to be replaced. However, the existing systems require duplicate data entry – city staff must manually enter the Police Department's financial data into the city's accounting system. At some point the department will require new systems, which will certainly cost more than $15,000.

**State law allows intergovernmental agreements.** Section 70.220 of the Revised Statutes of Missouri allows the Board of Police Commissioners and City Council to enter into an intergovernmental cooperative agreement to provide a common service. A city ordinance and a resolution of the Police Board resolution are required to establish an intergovernmental agreement. The agreement must be filed with the Missouri Secretary of State, the Jackson County Director of Records, and the Recorder of Deeds of Cass County, Clay County, and Platte County.

Lack of trust is the primary barrier to moving forward, so technology alone cannot resolve the issue. Both city and Police Department staff should honestly discuss their concerns, recognize the concerns of each organization as legitimate, and look for ways to achieve system integration while maintaining organizational autonomy. We continue to believe that this can be accomplished through an intergovernmental agreement that specifies how confidential and sensitive data will be protected, minimum service levels, accountability mechanisms, and reporting requirements. We reiterated our recommendation from the 2001 audit to the city's Director of Information Technology in a memorandum September 5, 2003. We also shared our concerns with Police staff and the President of the Board of Police Commissioners.

### Parks Seeks Additional Public Funding for Expanded Museum Despite Prior Council Decision

The Parks Board asked the City Council to call for an election on April 6, 2004, to authorize $20 million in bonds for the Liberty Memorial Museum project and the City Council granted the request. Bonds will require repayment by reallocating existing resources or from a new, unspecified revenue source.

**The Council rejected public funding of a museum in 1998.** In August 1998 voters approved an 18-month, ½ cent sales tax to fund restoration and a maintenance endowment for the Liberty Memorial. The Council and voters clearly intended to restrict the use of public funds, and disallowed the use of taxes for building a museum. When originally introduced, the ordinance provided tax money for two things: restoration and expansion. The committee that heard testimony added a third element: an endowment for future maintenance. However, the City Council amended the ordinance during its legislative session, and removed funding for expansion of the museum, leaving restoration of the Memorial and funding an endowment to maintain the Memorial as the only lawful uses of public money. The intent of the Council not to use tax funds to expand the museum was clear.

**Parks Board proceeded with plans to build a museum.** While the use of public funds was restricted to restoration and future maintenance of the Memorial, the Parks and Recreation Department proceeded with plans to build an expanded museum using funding from other sources. The Department said that there was massive public, business, and community support for the museum expansion. Our April 2001 audit of the Liberty Memorial project showed that the Board was about $17.7 million short of their fundraising goal of $30 million. The Board has been raising funds for the museum project since November 1995.

**Total project costs have escalated.** The 1997 cost estimates of J. E. Dunn Construction Company projected $40.3 million for preparing the museum shell and finishing the museum exhibits, and $21.5 million for the Memorial restoration. .(See Exhibit 3.) Our 2001 performance audit concluded that Parks shifted expansion costs for the museum and accounted them to restoration costs for the Memorial

Exhibit 3. Liberty Memorial Project Cost Estimates, 1995-2000 ($ millions)

| Date | Source | Restoration | Museum | Exhibits | Site Dev. | Total |
|---|---|---|---|---|---|---|
| 4/21/1995 | Norton & Schmidt | 20.6 | | | | |
| 5/23/1995 | Board Minutes | | 10 | | | 30.7 |
| 4/18/1996 | Hypothetical Program | 21 | 17.5 | 12 | 1.5 | 52 |
| 4/18/1996 | Adjusted Buildout | 29 | 9.5 | 12 | 1.5 | 52 |
| 6/3/1997 | Parks Board Minutes | 21.5 | 29.3 | 11 | | 61.8 |
| 10/5/1999 | Memo to Mayor | 35 | 30 | | | 65 |
| 10/28/1999 | Universal Christman | 36 | 32.8 | | | 68.8 |
| 11/22/2000 | Contract File | 35.7 | 21.4 | 14.2 | 2.8 | 74.1 |

Sources: Liberty Memorial Project documents.

**How will the city fund operating costs?** The city hasn't identified a source of funding to pay for operating a new museum. The city transferred management and operation of the Memorial to the Liberty

Memorial Association (LMA), effective February 1, 2004. The 10-year agreement between the city, the Parks Board and LMA provides the Association with an annual $625,000 subsidy, plus 45 percent of the interest from the maintenance endowment to support operating costs, approximately $230,000 in 2004. The agreement allows that amendments to the agreement may be necessary if the Association is unable to meet its fundraising goals, and if funds are insufficient to fully support its operating needs and obligations.

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## City Lacks Adequate Financial Policies

Participants at the financial condition forum noted that the city lacks a policy framework for making decisions. A policy framework founded on solid principles should be established and used. Participants noted that the city has few financial policies and does not adhere to those it has established. Participants expressed concern about the lack of policy on development incentives and the tendency for the city to emphasize specific projects rather than policy principles.

Participants at the financial condition forum felt the city needs a financial vision – where the city wants to be in 10 years – with a set of core financial policies, articulated priorities, and a financial framework to drive services. The city needs to focus on setting policies and sticking to them.

### Policies Should Guide Decision-making

Formal financial policies increase transparency and accountability. Lacking such policies, the city makes decisions on an ad hoc basis and fails to make strategic, long-term decisions. We have recommended adopting GFOA financial policies in years past. In our 2001 analysis of the city's budget process, we found that most practices address the concepts of GFOA policy areas, but the city lacks a clear, collected set of policies to provide a framework for decision-making.

**City lacks a policy on debt levels and capacity.** The Council accepted the recommendations of the Community Infrastructure Committee in 1997, but does not have a formal debt policy approved by the City Council. Establishing a policy helps maintain debt capacity and a good credit rating.

**City lacks a policy on using one-time revenues.** In both 2001 and 2002, the city followed the practice of limiting one-time revenues to paying for one-time expenses – a prudent practice. However, the city never adopted the practice as a policy. Lack of policy results in the use of one-time revenues to fund multi-year obligations, and reduces the Council's ability to plan strategically. A policy on one-time revenues should explicitly define what one-time revenues will be used for, and that they may not be used for multi-year obligations.

**City lacks a policy on evaluating unpredictable revenues.** A policy would help the city plan if an unpredictable revenue was significantly higher or lower than projected. Lack of a policy diminishes flexibility and weakens long-term planning. Budget practices reflect city staff's intent to identify and isolate unpredictable revenues, but without a set of policy actions to be taken if revenues fluctuate, the Council may be surprised by the need to use fund balance.

**City lacks a policy on balancing the operating budget.** While the Charter requires the city to balance its budget, best practices call for maintaining structural balance, a more stringent requirement. A policy on balancing the operating budget should explicitly require structural balance, provide a clear method for achieving balance, identify the sources and uses for all funds, require reporting on structural balance to elected officials, and identify specific circumstances that would allow for deviation from the policy.

**City lacks a policy on diversifying revenue.** The city has enjoyed a diverse and balanced revenue stream. The diversity of the revenue stream was not brought about by an explicit policy, however, and the city has no strategy for improving revenue diversification. A policy on revenue diversification begins with an analysis of the fairness of the tax or fee, and its sensitivity to changes in the future environment.

**City lacks a policy on planning for contingencies.** The Charter requires that not less than one or more than three percent of the estimated general fund be set aside for emergencies. A practice of setting aside funds is not the same as having a formal policy on contingency planning. A policy would identify the types of emergencies or unexpected events for which the contingency could be used, and define how situations would be handled from a financial management perspective.

### Advisory Council Recommends a Budget Practices Framework

The National Advisory Council on State and Local Budgeting's (NACSLB) *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* defines a comprehensive framework of budget processes and procedures including principles, elements, and practices. The principles and elements in the following exhibit broadly define the process.

Exhibit 4. NACSLB Budgeting Principles and Elements

**Establish Broad Goals to Guide Government Decision Making**
- Assess community needs, priorities, challenges, and opportunities.
- Identify opportunities and challenges for government services, capital assets, and management.
- Develop and disseminate broad goals.

**Develop Approaches to Achieve Goals**
- Adopt financial policies.
- Develop programmatic, operating, and capital policies and plans.
- Develop programs and services that are consistent with policies and plans.
- Develop management strategies.

**Develop a Budget Consistent with Approaches to Achieve Goals**
- Develop a process for preparing and adopting a budget.
- Develop and evaluate financial options.
- Make choices necessary to adopt a budget.

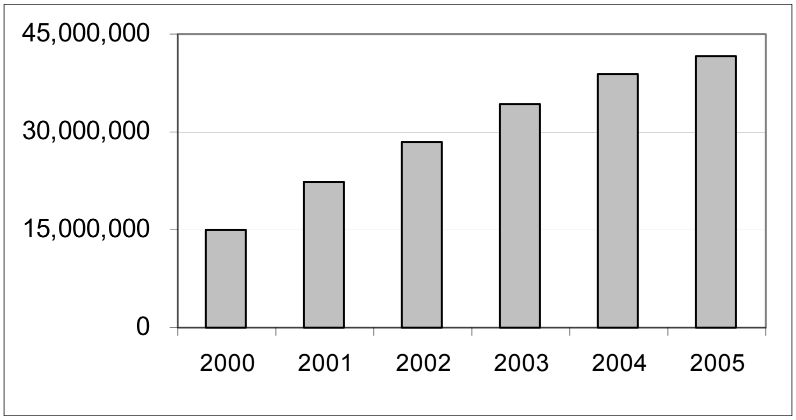
**Evaluate Performance and Make Adjustments**
- Monitor, measure, and evaluate performance.
- Make adjustments as needed.

Source: National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* (Chicago: Government Finance Officers Association, 1998), p. 5.

### Efforts to Create a TIF Policy Failed

Awareness of the need for a policy on TIF became evident with the rapid growth in city expenditures for TIF and STIF incentives. TIF and STIF expenditures have grown from $15 million in 2000 to a budgeted $41.7 million in 2005. (See Exhibit 5.) In both the 2000 and 2002 adopted budgets, the City Manager called for the City Council to develop a public policy to manage the financial challenge presented by the growth in TIF. We've reported the lack of policy guidance on TIF incentives in past years, advising that absence of a policy results in long-term risks to the city.

Exhibit 5. Growth of TIF and STIF Expenditures[3]




Sources: AFN and Submitted Budget FY 2005.

Public debate on a TIF policy began with the introduction of Resolution 010924 in June 2001. The eleven elements of the proposed policy intend to ensure that TIF is used to achieve clear and substantial public benefits while protecting the financial condition of the city. Economic Development Corporation (EDC) employees and the TIF Commission opposed the policy under consideration and argued that a policy wasn't needed. The policy resolution was held in committee until being removed from the agenda in July 2003. No further efforts to develop a TIF policy have been forthcoming.

The Government Finance Officers Association recommends that local governments using incentives set policies to:

- establish goals and criteria to define the benefits to the government and to the developers;
- measure the costs of incentives to local government and compare to the goals and criteria established; and
- develop actions that the city will take if actual benefits differ from projections.

There are financial risks to the city in the use of TIF when:

- TIF is used when it is not necessary. Some projects may be economically feasible without public subsidy.
- TIF projects perform below expectations, requiring additional public support.

[3] 2004 estimated, 2005 budgeted.

- TIF projects capture tax revenues that would otherwise be available to the city, i.e., sales, earnings, and utility taxes.

- TIF districts move an existing tax base, shifting tax revenue funding city services to a developer.

- TIF supports growth within a district, but hurts growth outside the district by a greater amount.

Resolution 010924 called for funding the TIF Commission through the general fund. The current practice of funding the Commission with a portion of redirected tax dollars generated by TIF plans provides a built-in conflict of interest. In addition, the current practice results in keeping TIF program costs “off the books.” Hidden costs are much more difficult to monitor and control. Funding the Commission through the general fund would make costs transparent and make the TIF incentive program subject to the same budgetary and financial controls as other programs competing for city funding.

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## Council Needs Understandable and Timely Financial Information

Participants at the financial condition forum felt that staff provides information to the City Council that is hard for non-professionals to understand. Participants generally agreed that elected officials need understandable, useful information, and they need sufficient time to review it.

Participants at the financial condition forum felt the City Council needs information that is relevant, that they can understand and use. City staff needs to provide information that communicates policy and political implications of decisions. The City Council needs to spend more time working with the information. The City Council needs information that allows them to judge the future results of decisions.

### City Didn’t Prepare Financial Reports

For the submitted budget that we – and the Council – are reviewing, city staff haven’t prepared and presented the five-year financial forecast and financial condition analyses. In addition, the city’s Comprehensive Annual Financial Report (CAFR) hasn’t been released in a timely manner. The effect of not having these reports is unclear, but the financial condition forum stressed the need for prospective information, such as the five-year forecast, and timely information. Having the five-year forecast and financial condition analysis could have helped the City Council better address budgetary issues.

**Forecast and condition analysis not prepared.** This year, neither the five-year financial forecast nor the financial condition report were prepared and presented to the City Council. In prior years, these two reports were considered as part of the process of developing the budget. In 1995, the City Council approved a resolution to require the five-year financial forecast be prepared and released each October. In 1998, the City Council approved a resolution setting a budget calendar calling for the financial condition report in mid-November. Both the budget office and the Finance Director cited a lack of staff and a need to complete other work as reasons the two reports weren't completed and presented.

The effect of not preparing these two reports is unclear. The information could have provided the City Council with prospective information and further analysis of the city's financial condition. That information might have helped the city assess options for addressing structural problems in the budget.

**Annual financial report delayed.** The City's Comprehensive Annual Financial Report for fiscal year 2003 hasn't been completed, about ten months after the end of the fiscal year. In the last 12 years, the CAFR has usually been released within six months of the end of the fiscal year. Last year the CAFR was released nine months after the end of the fiscal year. A CAFR should be available within six to nine months; a delay beyond nine months is excessive.

The Director of Finance cited changes in requirements for financial reporting and a lack of staff as responsible for the delays in the CAFR. The 2003 CAFR is the first for which a significant new government financial reporting model is in effect. Finalizing inventory and values for non-infrastructure capital assets has delayed completing the CAFR. In addition, the Director of Finance reallocated staff to other high priority projects such as a special audit related to the city's housing programs.

### City Manager Acknowledges Structural Problems in the Budget

The City Manager made an effort to be more candid and blunt in the budget compared to previous city budgets. The transmittal letter should help readers understand the issues. Compared to prior budget transmittal letters, we believe this year's letter is easier to understand.

**The City Manager acknowledges the structural problems and lays out some major policy issues in the submitted budget.** The City Manager wrote:

- The budget is not structurally balanced.
- Structural change must be made in the budget.

While the budget has not been structurally balanced for years, this is the first time we've seen a City Manager recognize, in plain English, that fact. The City Manager proposes to make a significant structural change – funding the Health Department entirely through the health levy.

We believe that the City Manager's clear statement that the city faces a structural imbalance and needs to make structural changes is important. Providing this sort of information should help the City Council understand the problems, consequences, and options for addressing them.

**Manager agrees to set guidelines for quality of information.** In November 2003, we reported that the Department of Environmental Management presented the Council with information that understated the cost of residential trash pick-up and misrepresented analysis used to evaluate bids. We recommended that the City Manager set guidelines for departments to follow in collecting and reporting performance information. Following such guidelines could establish a more productive relationship between staff and elected officials, and help ensure that the City Council has good data when making decisions. The City Manager agreed with the recommendation.

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## Service Problems Weaken the City's Financial Condition

Participants at the financial condition forum said a spiral effect hurts the city. Poor services impact the tax base, infrastructure declines, eroding the tax base, weakening the financial condition, resulting in additional poor service delivery. Participants generally agreed that citizens are dissatisfied with service delivery. Poor services may explain why people move out of the city or choose to live elsewhere.

**Kansas City's population grew slower than the population of the metro area and the nation.** Between 1990 and 2000, population in Kansas City increased 1.5 percent, well below the metropolitan area growth rate of 13.4 percent and the national growth rate of 13.2 percent.

**Citizens dissatisfied with city's services.** In our annual citizen surveys, Kansas City residents continued to rate nearly all city services below the average of the other communities surveyed in the metropolitan area or in other large, central U.S. cities. About half of respondents rated their satisfaction with the overall quality of services provided by the city as a 4 or 5, where 5 means very satisfied in 2001 and 2002 surveys (56 percent and 53 percent, respectively). Over one third of respondents rated their satisfaction with the overall value of services received versus taxes and fees as a 4 or 5 (38 percent and 35 percent, respectively).

Kansas City residents rated most services below the average of the other communities surveyed.

- Residents rated police, fire, and ambulance services lower than the average metro area benchmarks, but consistently with the average of the other central US/regional large cities.

- Residents rated park and recreation services lower than the average metro area benchmarks and lower than the average of the other central US/regional large cities.

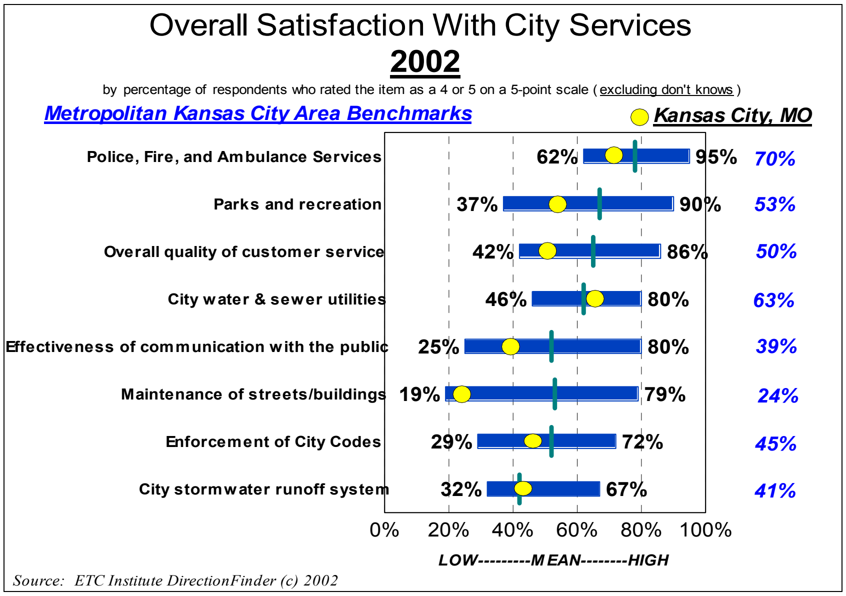
- Residents rated the overall quality of customer service lower than the average metro area benchmarks, but consistently with the average of the other central US/regional large cities.

- Residents rated the enforcement of city codes slightly lower than the metro area average, but consistently with the average of the other central US/regional large cities.

- Residents rated the effectiveness of city communication with the public lower than the metro area average and a little lower than the average of the other central US/regional large cities.

- Residents rated the maintenance of streets/buildings lower than the metro area average benchmarks and lower than the average of the other central US/regional large cities.

Exhibit 6. Citizens' Ratings for Major Categories of City Services




Source: *City Services Performance Report for Fiscal Year 2002.*

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